



PORT ST JOHNS
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Port St Johns Municipality
Annual Financial Statements
for the year ended 30 June, 2016

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

General Information

Legal form of entity

Municipality

Nature of business and principal activities

The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality, excluding the following: Housing Services.- supply of housing to the community and includes the rental of units owned by the municipality to public and staff, Waste Management Services - The collection and disposal of refuse.

Members of Council

Mayor

Councillor Langa P

Speaker

Councillor Khukula T

Chief Whip

Councillor Nokhanda B N

Councillors

Councillor Bokwe N.F

Councillor Cube Z.H

Councillor Diko N.F

Councillor Fono K. M

Councillor Fono N.C

Councillor Kotana M.P.J

Councillor Lobi J.S

Councillor Mabovana M.S

Councillor Madini D. V

Councillor Madolo S

Councillor Maqina Z

Councillor Mbotshwa N

Councillor Mcekisa V .N

Councillor Mfiki N

Councillor Mhlabeni Z

Councillor Mncwati E.Z

Councillor Moni X

Councillor Mtiki Z

Councillor Mtuku N.B

Councillor Mzaza S

Councillor Ndakayi N

Councillor Ndamase L

Councillor Nduku C

Councillor Namagedeshe B

Councillor Nompaka T

Councillor Rolobile L

Councillor Sophotela M.N

Councillor Sotshongaye S.T

Councillor Tani N

Councillor Tayi H.S

Councillor Tshitshiliza N

Councillor Tshotho G

Councillor Veni M

Councillor Zweni R. M

Port St Johns Municipality

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General Information

Municipal demarcation code	EC154
Grading of local authority	Grade 2
Capacity of local authority	Low
Chief Financial Officer (CFO)	Mrs P Gwana
Accounting Officer	Mr N Pakade
Business address	257 Main street Port St Johns 5120
Postal address	P O Box 2 Port St Johns 5120
Bankers	ABSA Limited
Auditors	Auditor-General South Africa
Provincial treasury	Eastern Cape Provincial Treasury

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

DSRAC	Department of Sports, Recreation, Arts and Culture
EPWP	Expanded Public Works Programme.
GRAP	Generally Recognised Accounting Practice
LG SETA	Local Government Skills Education Training Authority
MFMA	Municipal Finance Management Act 56 of 2003
MIG	Municipal Infrastructure Grant
IPSAS	International Public Sector Accounting Standards
PSJDA	Port St Johns Development Agency
SALGA	South Africa Local Government Association
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant

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Accounting Officers Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act, 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has considered the municipality's cash flow budget for the year to 30 June, 2017 during the budgeting process, and in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016.

Mr N Pakade
Municipal Manager

Port St Johns

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2016.

1. Review of activities

Main business and operations

The municipality is engaged in the main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community :rates and refuse removal. and operates principally in South Africa and [state other countries].

2. Going concern

We draw attention to the fact that at 30 June, 2016, the municipality had accumulated surplus of 379,509,504 and that the municipality's total assets exceed its liabilities by 379,509,504.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4.

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr N Pakade	South African	Appointed

5. Interest in controlled entities

Name of controlled entity		
Port St Johns Development Agency	RSA	100

6. Bankers

The municipality banks with ABSA limited

7. Auditors

Auditor-General South Africa will continue in office for the next financial period.

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Annual Financial Statements for the year ended 30 June, 2016

Statement of Financial Position as at 30 June, 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Cash and cash equivalents	3	36,857,627	9,008,119
Consumer debtors	4	743,062	663,146
Receivables from non-exchange transactions	5	3,478,859	1,761,903
VAT receivable	6	5,399,065	19,625,583
Other debtors from exchange transactions	7	816,891	531,385
Inventories	8	1,457,645	520,855
		48,753,149	32,110,991
Non-Current Assets			
Investment property	9	11,461,003	11,461,003
Property, plant and equipment	10	359,627,448	356,695,877
		371,088,451	368,156,880
Non-Current Assets		371,088,451	368,156,880
Current Assets		48,753,149	32,110,991
Total Assets		419,841,600	400,267,871
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	20,238,324	24,581,009
Finance lease obligation	12	10,532,048	11,526,747
Unspent conditional grants and receipts	13	546,623	-
Employee benefit obligation	15	230,325	509,000
Consumer deposits		61,000	61,000
Bank overdraft	3	-	45,125
		31,608,320	36,722,881
Non-Current Liabilities			
Finance lease obligation	12	1,457	100,244
Operating lease liability	14	1,729,553	1,597,514
Employee benefit obligation	15	1,898,031	1,472,000
Provisions	16	5,094,735	4,801,824
		8,723,776	7,971,582
Non-Current Liabilities		8,723,776	7,971,582
Current Liabilities		31,608,320	36,722,881
Total Liabilities		40,332,096	44,694,463
Assets		419,841,600	400,267,871
Liabilities		(40,332,096)	(44,694,463)
Net Assets		379,509,504	355,573,408
Accumulated surplus	17	379,509,504	355,573,408

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Statement of Financial Performance for the year ended 30 June 2016

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from exchange transactions			
Interest received -Investments	19	1,650,441	808,187
Service charges	20	755,693	726,277
Rental income	21	34,025	58,056
Interest received - trading		2,946,098	2,550,539
Other income	22	559,520	292,457
Total revenue from exchange transactions		5,945,777	4,435,516
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	6,741,055	3,962,250
Transfer revenue			
Government grants and subsidies	24	149,272,297	143,535,495
Public contributions and donations		2,500	724,495
Fines, penalties and forfeits		290,100	285,650
Licences and permits		45,444	24,267
Total revenue from non-exchange transactions		156,351,396	148,532,157
		5,945,777	4,435,516
		156,351,396	148,532,157
Total revenue	18	162,297,173	152,967,673
Expenditure			
Employee related costs	25	(45,982,869)	(42,704,144)
Remuneration of councillors	26	(11,084,771)	(9,788,921)
Debt impairment	27	(1,920,263)	(3,848,026)
Depreciation	28	(27,567,574)	(30,112,231)
Finance costs	29	(768,721)	(2,424,987)
Repairs and maintenance		(2,153,292)	(2,285,458)
Contracted services	30	(14,024,353)	(4,425,519)
Grants and subsidies paid	31	(6,043,566)	(5,033,220)
Loss on disposal of assets		(17,155)	(263,526)
Operating lease rentals		(408,686)	(306,585)
General expenses	32	(28,461,905)	(37,939,359)
Total expenditure		(138,433,155)	(139,131,976)
		-	-
Total revenue		162,297,173	152,967,673
Total expenditure		(138,433,155)	(139,131,976)
Operating surplus/deficit		-	-
Surplus before taxation		23,864,018	13,835,697
Taxation		-	-
Surplus for the year		23,864,018	13,835,697

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2014 as previously reported	342,163,730	342,163,730
Changes in net assets		
Prior year adjustments - Note 41	(426,019)	(426,019)
Net income (losses) recognised directly in net assets	(426,019)	(426,019)
Surplus/(deficit) for the year	13,835,697	13,835,697
Total changes	13,409,678	13,409,678
Total changes	13,409,678	13,409,678
Balance at 1 July, 2015	324,141,715	324,141,715
Changes in net assets		
Prior year error adjustment	31,431,688	31,431,688
Net income (losses) recognised directly in net assets	31,431,688	31,431,688
Surplus/(deficit) for the year	23,864,018	23,864,018
Total recognised income and expenses for the year	55,295,706	55,295,706
Prior year adjustment input VAT	72,083	72,083
Total changes	55,367,789	55,367,789
Balance at 30 June, 2016	379,509,504	379,509,504

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Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Licences and permits		51,803	28,879
Service charges		260,231	317,048
Grants and subsidies		149,933,340	130,318,340
Interest income		1,286,316	808,187
VAT refunds		20,350,148	667,233
Interest received on outstanding debtors		497,290	249,914
Other receipts		2,874,490	282,863
Rental of facilities and equipment		38,940	63,610
Traffic Fines		51,630	41,950
Rates		5,112,527	2,134,666
		<u>180,456,715</u>	<u>134,912,690</u>
Payments			
Employee costs and remuneration of councillors		(63,003,961)	(54,203,273)
Suppliers		(34,886,343)	(27,215,405)
Finance cost		(15,186,354)	(7,095,943)
Rental of equipment		(426,260)	(319,961)
Finance cost		(3)	-
Repairs and maintenance		(3,286,506)	(1,587,234)
Grants and subsidies paid		(6,889,665)	(5,033,222)
		<u>(123,679,092)</u>	<u>(95,455,038)</u>
Total receipts		180,456,715	134,912,690
Total payments		(123,679,092)	(95,455,038)
Net cash flows from operating activities	34	<u>56,777,623</u>	<u>39,457,652</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(20,301,017)	(25,630,708)
Proceeds from sale of property, plant and equipment	10	466,499	-
Net cash flows from investing activities		<u>(19,834,519)</u>	<u>(25,630,708)</u>
Cash flows from financing activities			
Finance lease payments		(9,048,471)	(19,506,261)
Net increase/(decrease) in cash and cash equivalents		27,894,633	(5,679,317)
Cash and cash equivalents at the beginning of the year		8,962,994	14,642,311
Cash and cash equivalents at the end of the year	3	<u>36,857,627</u>	<u>8,962,994</u>

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,816,672	(1,000,000)	816,672	755,693	(60,979)	
Rental income	-	26,000	26,000	34,025	8,025	a
Interest received - trading	2,000,000	1,000,000	3,000,000	2,946,098	(53,902)	b
Other income - (rollup)	412,405	1,327,595	1,740,000	559,520	(1,180,480)	e
Interest received - investment	300,000	1,200,000	1,500,000	1,650,441	150,441	
Total revenue from exchange transactions	4,529,077	2,553,595	7,082,672	5,945,777	(1,136,895)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	10,051,674	(2,000,003)	8,051,671	6,741,055	(1,310,616)	o
Transfer revenue						
Government grants and subsidies	157,795,000	(2,976,000)	154,819,000	149,272,297	(5,546,703)	
Public contributions and donations	-	-	-	2,500	2,500	c
Fines, penalties and forfeits	45,175	304,825	350,000	290,100	(59,900)	f
Licences and Permits	3,044,087	(2,994,087)	50,000	45,444	(4,556)	d
Total revenue from non-exchange transactions	170,935,936	(7,665,265)	163,270,671	156,351,396	(6,919,275)	
'Total revenue from exchange transactions'	4,529,077	2,553,595	7,082,672	5,945,777	(1,136,895)	
'Total revenue from non-exchange transactions'	170,935,936	(7,665,265)	163,270,671	156,351,396	(6,919,275)	p
Total revenue	175,465,013	(5,111,670)	170,353,343	162,297,173	(8,056,170)	
Expenditure						
Employee related costs	(48,880,394)	(22,918,982)	(71,799,376)	(45,982,869)	25,816,507	q
Remuneration of councillors	(12,476,203)	-	(12,476,203)	(11,084,771)	1,391,432	g
Depreciation and amortisation	(9,457,988)	(43,547,012)	(53,005,000)	(27,567,574)	25,437,426	l
Finance costs	(50,000)	(7,240,000)	(7,290,000)	(768,721)	6,521,279	k
Lease rentals on operating lease	(179,449)	(1,423,370)	(1,602,819)	(408,686)	1,194,133	n
Debt impairment	(5,240,000)	2,590,000	(2,650,000)	(1,920,263)	729,737	h
Repairs and maintenance	(6,008,202)	(779,103)	(6,787,305)	(2,153,292)	4,634,013	i
Contracted services	(1,059,000)	(25,471,000)	(26,530,000)	(14,024,353)	12,505,647	k
Grants and subsidies paid	(3,842,000)	(6,250,000)	(10,092,000)	(6,043,566)	4,048,434	m
Reserves	(344,960)	274,960	(70,000)	-	70,000	
General expenses	(43,680,994)	(10,855,818)	(54,536,812)	(28,461,905)	26,074,907	j
Total expenditure	(131,219,190)	(115,620,325)	(246,839,515)	(138,416,000)	108,423,515	
	175,465,013	(5,111,670)	170,353,343	162,297,173	(8,056,170)	
	(131,219,190)	(115,620,325)	(246,839,515)	(138,416,000)	108,423,515	
Operating surplus	44,245,823	(120,731,995)	(76,486,172)	23,881,173	100,367,345	

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Loss on disposal of assets and liabilities	-	(20,000)	(20,000)	(17,155)	2,845	
	44,245,823	(120,731,995)	(76,486,172)	23,881,173	100,367,345	
	-	(20,000)	(20,000)	(17,155)	2,845	
Surplus before taxation	44,245,823	(120,751,995)	(76,506,172)	23,864,018	100,370,190	
Deficit before taxation	44,245,823	(120,751,995)	(76,506,172)	23,864,018	100,370,190	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	44,245,823	(120,751,995)	(76,506,172)	23,864,018	100,370,190	

The budget is prepared on an accruals basis .

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.4 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20-30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives and depreciation method of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Non depreciable	Non depreciable
Buildings	Straight line	30 years
Plant and machinery	Straight line	2-15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	5- 10 years
Office equipment	Straight line	3- 7 years
Computer equipment	Straight line	3 years
Infrastructure	Straight line	15-30 years
Community	Straight line	30 years
Bins and containers	Straight line	5 years
Cellular equipment	Straight line	2 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non- exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short term receivables and payables are not discounted where initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

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Accounting Policies

1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.8 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received..

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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Accounting Policies

1.9 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.12 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:

- the definition of an asset is met; and
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

For amounts due the the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the statutory receivable that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
 - the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
 - the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
- derecognises the receivable;
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised in surplus or deficit in the period of the transfer.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

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Accounting Policies

1.13 Employee benefits (continued)

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Port St Johns Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Taxes (Property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes :

- overspending of the total amount appropriated in the municipality's approved budget;
 - overspending of the total amount appropriated for a vote in the approved budget
- expenditure from a vote unrelated to the department or functional area covered by the vote;
expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or
a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act 9 (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Accounting Policies

1.23 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and income expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.24 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2015 to 6/30/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the party, or vice versa, or an entity that is subject to common control, or joint control..

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No. 89 of 1991)

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
3. Cash and cash equivalent		
Cash and cash equivalents consist of:		
Cash on hand	-	167
Bank balances	2,534,152	-
Short-term deposits	34,323,475	9,007,952
Bank overdraft	-	(45,125)
	36,857,627	8,962,994
Current assets	36,857,627	9,008,119
Current liabilities	-	(45,125)
	36,857,627	8,962,994

Fleet card amount is attached to the main account with the limit of R40 000

No item of cash and cash equivalents has been pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	30 June, 2014
Absa Bank- Current Account Operational 9269	2,530,159	(45,125)	3,401,550	2,530,144	(45,125)	3,401,550
ABSA Bank- Salaries Call Account 7272	5,117,015	3,883,857	1,238,979	5,117,015	3,883,857	1,238,979
ABSA MSP Fund Account 9972	2,457	2,391	2,339	(9,983)	2,391	2,339
ABSA Repairs Account 2134	24,298,362	2,583,734	2,320,921	24,298,362	2,583,734	2,320,921
ABSA Call Account FMG 6056	3,245,348	1,001,162	3,242,648	3,245,357	1,001,162	3,242,684
ABSA MIG Call Account 6187	8,745	2,345	928,445	8,745	2,345	928,445
ABSA LED Account 7159	13,288	121,551	2,290,757	13,288	121,551	2,290,757
ABSA Traffic Call Account 3891	5,644	5,487	5,273	5,664	5,487	5,273
ABSA Plant Call Account	1,645,027	1,407,425	1,211,398	1,645,027	1,407,425	1,211,398
Petty Cash	-	167	(36)	-	167	(36)
ABSA EPWP 7506	1,002	-	-	1,002	-	-
ABSA Bank LG SETA 9964	1,002	-	-	1,002	-	-
ABSA Bank INEP 6122	1,002	-	-	1,002	-	-
ABSA Bank 7695	1,002	-	-	1,002	-	-
Total	36,870,053	8,962,994	14,642,274	36,857,627	8,962,994	14,642,310

4. Receivables from exchange transactions

Gross balances

Refuse	5,123,051	4,156,159
Property lease rental	161,616	161,616
	5,284,667	4,317,775

Less: Allowance for impairment

Refuse	(4,396,151)	(3,509,175)
Property lease rental	(145,454)	(145,454)
	(4,541,605)	(3,654,629)

Net balance

Refuse	726,900	646,984
Property lease rental	16,162	16,162
	743,062	663,146

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
4. Receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	317,300	292,588
31 - 60 days	102,208	92,324
61 - 90 days	101,344	90,902
91 - 120 days	4,602,199	3,680,346
Less: Allowance	(4,396,151)	(3,509,176)
	726,900	646,984
Housing rental		
Current (0 -30 days)	161,616	161,616
Less Impairment	(145,454)	(145,454)
	16,162	16,162
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	80,874	82,525
31 - 60 days	27,863	26,968
61 - 90 days	27,463	26,653
91 - 120 days	1,669,862	1,462,501
	1,806,062	1,598,647
Less: Allowance for impairment	(1,588,139)	(1,331,042)
	217,923	267,605
Consumers past due and impaired		
31- 60 days	27,863	26,968
61- 90 days	27,473	26,653
> 90 days	1,831,478	1,462,501
	1,886,814	1,516,122
Industrial/ commercial		
Current (0 -30 days)	132,928	117,959
31 - 60 days	40,512	35,612
61 - 90 days	40,230	35,225
91 - 120 days	1,176,812	833,534
	1,390,482	1,022,330
Less: Allowance for impairment	(1,094,439)	(803,074)
	296,043	219,256

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
4. Receivables from exchange transactions (continued)		
Industrial past due and impaired		
31 -60 days	102,208	35,612
61- 90 days	40,230	35,612
> 90 days	1,176,812	833,534
	1,319,250	904,758
National and provincial government		
Current (0 -30 days)	103,498	92,103
31 - 60 days	33,833	29,743
61 - 90 days	33,641	29,025
91 - 120 days	1,755,525	1,384,310
	1,926,497	1,535,181
Less: Allowance for impairment	(1,094,439)	(1,375,059)
	832,058	160,122
National and Provincial Governemnts- Past Due and Impaired		
31- 60 days	33,833	29,743
61- 90 days	33,641	29,025
> 90 days	1,755,525	1,384,310
	1,822,999	1,443,078
Total		
Current (0 -30 days)	317,300	292,588
31 - 60 days	102,208	92,324
61 - 90 days	101,344	90,902
>120 days	4,763,815	3,841,960
	5,284,667	4,317,774
Less: Allowance for impairment	(4,541,605)	(3,654,628)
	743,062	663,146
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3,654,629)	(3,101,964)
Reversal of allowance	(886,976)	(552,665)
	(4,541,605)	(3,654,629)

Consumer debtors pledged as security

No receivables from exchange transactions have been pledged as security.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from refuse are billed monthly. Interest is charged on overdue consumers receivables at a rate of 15% per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
5. Receivables from non exchange transactions		
Gross balances		
Rates	20,548,930	18,037,157
Traffic fines	747,583	509,113
	21,296,513	18,546,270
Less: Allowance for impairment		
Rates	(17,203,121)	(16,351,749)
Traffic fines	(614,533)	(432,618)
	(17,817,654)	(16,784,367)
Net balance		
Rates	3,345,809	1,685,408
Traffic fines	133,050	76,495
	3,478,859	1,761,903
Rates		
Current (0 -30 days)	312,672	994,096
31 - 60 days	258,920	242,033
61 - 90 days	258,898	241,032
91 - 120 days	19,718,441	16,559,996
Less Impairment allowance	(17,203,122)	(16,351,749)
	3,345,809	1,685,408
Traffic fines		
Current (0 -30 days)	11,650	44,363
31 - 60 days	21,300	22,480
61 - 90 days	44,800	8,873
91 - 120 days	669,833	433,397
Less Impairment	(614,533)	(432,618)
	133,050	76,495
Summary of receivables by customer classification		
Consumers		
Current (0 -30 days)	171,454	540,892
31 - 60 days	137,244	123,644
61 - 90 days	137,170	122,775
91 - 120 days	10,326,478	8,685,904
	10,772,346	9,473,215
Less: Allowance for impairment	(9,755,120)	(7,784,554)
	1,017,226	1,688,661

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
5. Receivables from non exchange transactions (continued)		
Consumers past due and impaired		
31- 60 days	137,244	123,644
61-90 days	137,170	122,775
>90 days	10,326,478	8,685,904
	10,600,892	8,932,323
Industrial/ commercial		
Current (0 -30 days)	12,337	246,508
31 - 60 days	51,406	56,151
61 - 90 days	51,424	55,985
>90 days	4,488,498	4,652,448
	4,603,665	5,011,092
Less: Allowance for impairment	(3,144,345)	(3,393,294)
	1,459,320	1,617,798
Industrial Past due and Impaired		
31-60 days	51,406	56,151
61-90 days	51,424	55,985
> 90 days	4,488,498	4,652,448
	4,591,328	4,764,584
National and provincial government		
Current (0 -30 days)	128,881	206,696
31 - 60 days	70,269	62,238
61 - 90 days	70,304	62,273
91 - 120 days	4,903,464	5,804,148
	5,172,918	6,135,355
Less: Allowance for impairment	(4,303,656)	(5,173,902)
	869,262	961,453
National and Provincial Governments- Past due and Impaired		
31- 60 days	70,269	62,238
61- 90 days	70,304	62,273
> 90 days	4,903,464	5,804,148
	5,044,037	5,928,659
Total		
Current (0 -30 days)	324,322	1,038,459
31 - 60 days	280,220	264,513
61 - 90 days	303,698	249,905
91 - 120 days	20,388,273	16,993,393
	21,296,513	18,546,270
Less: Allowance for impairment	(4,918,189)	(16,784,367)
	16,378,323	1,761,903

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
5. Receivables from non exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	16,784,367	13,489,006
Contributions to allowance	1,033,287	3,295,361
	17,817,654	16,784,367

Consumer receivables pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

Credit quality of receivables from non exchange transactions

The credit quality of receivables from non exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from rates are billed monthly. Interest is charged on overdue consumers receivables at a rate of 15% per annum. No interest is charged on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

6. VAT receivable

VAT	5,399,065	19,625,583
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VAT receivable amount is made up of two basis as follows:

Cash Basis

VAT Input	-	927,544
VAT Control	3,398,584	16,559,070

Accruals basis

Creditors VAT Provisional	3,398,584	17,486,614
Creditors VAT Provisional (Contingent asset)	2,110,459	4,701,413
Creditors VAT provisional (AG Laman)	407,001	76,661
Debtors VAT Provisional	-	(2,160,112)
Debtors VAT provisional (Contigent Asset)	(503,185)	(437,056)
	(13,795)	(41,938)
	5,399,064	19,625,582

Other write offs already taken into account on the VAT Control	
Sars Assesments during the year	1 979 540
Penalties and Interest during the year-Incurred	382 174
Penalties and Interest during the year	-364 125
	1 997 589

6 646 881
1 292 195
0
7 939 077

7. Other debtors from exchange transactions

	2016	2015
SALGA	742 224	
ABSA and others	33 224	
Mozi Auction		531 385
Total	776 025	531 385

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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7. Other debtors from exchange transactions (continued)

SALGA relates to membership paid in full in the 2015/16 financial year relating to the 2016/17 financial year.
ABSA relates to the amounts fraudulently deducted from the municipal bank account.

8. Inventories

Stores	1,457,645	520,855
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8.1 Inventory is categorised as follows;

Construction Material	824,632	243,482
Protective and Cleaning Material	27,006	45,550
Gardening	5,776	25,190
Mechanical Tools	31,655	38,425
Spare parts	265,319	46,438
Fuel and Oil	303,257	121,770
	1,457,645	520,855

Inventory pledged as security

No inventory item was pledged as security for any facilities.

9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11,461,003	-	11,461,003	11,461,003	-	11,461,003

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	11,461,003	11,461,003

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	11,461,003	11,461,003

Pledged as security

None of the above investment property has been pledged as security.

Property to the value of 8 741 167 is pending held pending finalisation of sale to the O R Tambo District Municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016			2015		
10. Property, plant and equipment						
	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	67,942,292	(1,941,785)	66,000,507	67,942,292	(1,470,250)	66,472,042
Plant and machinery	35,153,732	(8,864,408)	26,289,324	34,913,800	(6,692,847)	28,220,953
Furniture and fixtures	1,034,270	(441,839)	592,431	810,382	(325,867)	484,515
Motor vehicles	3,635,496	(1,706,709)	1,928,787	2,437,962	(1,360,233)	1,077,729
Office equipment	619,142	(234,067)	385,075	320,004	(153,505)	166,499
IT equipment	1,573,934	(666,630)	907,304	1,085,236	(503,654)	581,582
Infrastructure	350,945,240	(171,767,699)	179,177,541	342,326,393	(147,230,240)	195,096,153
Community Assets	13,055,758	(3,329,541)	9,726,217	13,055,758	(2,846,141)	10,209,617
Infrastructure - WIP	74,500,842	-	74,500,842	53,953,573	-	53,953,573
Cellular equipment	878,106	(758,686)	119,420	855,529	(422,315)	433,214
Total	549,338,812	(189,711,364)	359,627,448	517,700,929	(161,005,052)	356,695,877

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation
Buildings	66,472,042	-	-	-	-	584	(472,111)
Plant and machinery	28,220,953	239,931	-	-	-	-	(2,171,561)
Furniture and fixtures	484,515	223,888	-	-	-	-	(115,977)
Motor vehicles	1,077,729	1,197,534	-	-	-	-	(346,477)
Office equipment	166,499	299,138	-	-	-	-	(80,561)
IT equipment	581,582	550,698	(17,155)	-	-	-	(207,821)
Infrastructure	195,096,153	-	-	8,618,848	-	-	(24,537,461)
Community Assets	10,209,617	-	-	-	-	-	(483,401)
Infrastructure - WIP	53,953,573	29,166,118	-	-	(8,618,849)	-	-
Cellular equipment	433,214	22,577	-	-	-	3,387	(339,751)
	356,695,877	31,699,884	(17,155)	8,618,848	(8,618,849)	3,971	(28,755,121)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Buildings	66,648,075	341,436	-	-	-	(517,469)	66,472,042
Plant and machinery	29,371,669	1,292,748	(249,809)	-	-	(2,193,655)	28,220,953
Furniture and fixtures	439,333	199,256	(63,381)	-	-	(90,693)	484,515
Motor vehicles	1,704,135	-	(288,425)	-	-	(337,981)	1,077,729
Office equipment and traffic equipment	133,562	121,740	(32,709)	-	-	(56,094)	166,499
IT equipment	526,732	326,748	(120,879)	-	-	(151,019)	581,582
Infrastructure	205,086,498	-	-	16,651,978	-	(26,642,323)	195,096,153
Community Assets	10,692,202	-	-	-	-	(482,585)	10,209,617
Infrastructure - WIP	30,303,739	40,301,812	-	-	(16,651,978)	-	53,953,573
Cellular Equipment	328,659	432,271	-	-	-	(327,716)	433,214
	345,234,604	43,016,011	(755,203)	16,651,978	(16,651,978)	(30,799,535)	356,695,877

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
10. Property, plant and equipment (continued)		
Pledged as security		
The municipality purchased plant and machinery through an installment sale agreement as well as cellular equipment.		
There were no assets held as security for loan		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
11. Payables from exchange transactions		
Trade payables	631,865	6,493,998
Payments received in advance	1,099,302	782,385
Bonus Provision	1,003,222	959,941
Accruals	2,621,362	3,187,467
Unallocated deposits	120,420	6,000
Payroll accruals	746,041	1
Salary suspense	8,740	59,731
Retentions	2,448,561	1,643,911
Leave pay provision	2,817,644	2,706,408
OR Tambo advance	8,741,167	8,741,167
	20,238,324	24,581,009
12. Finance lease obligation		
Minimum lease payments due		
- within one year	10,536,503	14,345,532
- in second to fifth year inclusive	1,502	125,525
	10,538,005	14,471,057
less: future finance charges	(4,500)	(2,844,066)
Present value of minimum lease payments	10,533,505	11,626,991
Present value of minimum lease payments due		
- within one year	10,532,048	11,526,747
- in second to fifth year inclusive	1,457	100,244
	10,533,505	11,626,991
Non-current liabilities	1,457	100,244
Current liabilities	10,532,048	11,526,747
	10,533,505	11,626,991

The municipality entered into a finance lease agreement with Laman Finance. The lease period was for a period of 2.5 years and this was supposed to be paid off in April 2016. However, the municipality did not clear the finance lease obligation as per the agreed time and as such it remained outstanding as at 30 June 2016. The interest rate for this finance lease is per asset category and is 8% per annum.

The municipality has also entered into a finance lease agreement with Vodacom with respect to Cellphone equipment. The average term of the lease is 2 years. The interest rate for the lease ranges from 8.5% to 10.5 %.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Finance management grant	419,872	-
Municipal systems improvement grant	126,751	-
	546,623	-
Movement during the year		
Balance at the beginning of the year	-	14,169,030
Additions during the year	29,284,920	44,699,360
Income recognition during the year	(28,738,297)	(58,868,390)
	546,623	-
See note 24 for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised. Refer to Note 3.		
14. Operating lease liability		
Non-current liabilities	1,729,553	1,597,514
	1,729,553	1,597,514
Minimum lease payments		
Within 1 year	148,434	136,145
In the second to 5th year	739,899	678,806
After five years	5,577,193	5,786,719
	6,465,526	6,601,670
Port St Johns Local Municipality leases land from Transnet for a period of 29 years, effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No contingent rent is payable. The lease is not renewable at the end of the lease term.		
15. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Employee benefit obligation	(2,128,356)	(1,981,000)
Non-current liabilities	(1,898,031)	(1,472,000)
Current liabilities	(230,325)	(509,000)
	(2,128,356)	(1,981,000)
Changes in the present value of the long service award obligation are as follows:		
Opening balance	1,981,000	1,822,000
Net expense recognised in the statement of financial position	147,356	159,000
	2,128,356	1,981,000

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
15. Employee benefit obligations (continued)		
Net expense of the long service awards obligation recognised in the statement of financial performance		
Opening balance	586,000	427,000
Current service cost	320,000	298,000
Benefit paid	-	(85,821)
Interest cost	189,000	155,000
Actuarial (gains) losses	(361,644)	(208,179)
	733,356	586,000

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Increase due to unwinding of discount	Total
Environmental rehabilitation - landfill sites	4,801,824	292,911	5,094,735

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation - landfill sites	4,343,092	206,131	57,162	195,439	4,801,824

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2035 and has been discounted to reflect its present value.

17. Accumulated surplus

Changes in Accumulated surplus

	Accumulated Surplus	Total
Opening balance	355,573,408	355,573,408
Surplus for the year	23,864,018	23,864,018
Prior period error	(9,847,160)	(9,847,160)
	369,590,266	369,590,266

Ring-fenced internal funds and reserves within accumulated surplus - 2015

	Accumulated Surplus	Total
Opening balance	342,163,730	342,163,730
Surplus	10,561,608	10,561,608
Prior period error	3,833,815	3,833,815
	356,559,153	356,559,153

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
18. Revenue		
Service charges	755,693	726,277
Property rates	6,741,055	3,962,250
Government grants and subsidies	149,272,297	143,535,495
Interest received - trading	2,946,098	2,550,539
Interest received - investment	1,650,441	808,187
Public contributions and donations	2,500	724,495
Rental income	34,025	58,056
Other income	559,520	292,457
Fines, penalties and forfeits	290,100	285,650
Licence and Permits	45,444	24,267
	162,297,173	152,967,673
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	755,693	726,277
Rental of facilities and equipment	34,025	58,056
Interest received (trading)	2,946,098	2,550,539
Other income	559,520	292,457
Interest received - investment	1,650,441	808,187
	5,945,777	4,435,516
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	6,741,055	3,962,250
Transfer revenue		
Government grants and subsidies	149,272,297	143,535,495
Public contributions and donations	2,500	724,495
Fines, penalties and forfeits	290,100	285,650
Licence and Permits	45,444	24,267
	156,351,396	148,532,157
19. Interest received - Investment		
Interest revenue		
Bank and SARS	1,650,441	808,187
20. Service charges		
Refuse removal	755,693	726,277
21. Rental income		
Halls and Bill boards	34,025	58,056
22. Other income		
Insurance claims received	173,960	77,189
Plan and tender documents fees	243,373	145,656
Sundry Income	79,988	4,424
Grave sites	9,833	31,431
Commission received	52,366	33,757
	559,520	292,457

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
23. Property rates		
Rates received		
Income forgone/Rebate	(489,631)	(15,618)
Rates	7,230,686	3,977,868
	6,741,055	3,962,250

Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies

Valuations

Residential	127,137,359	129,006,759
Commercial	125,832,640	101,936,140
State	160,028,500	60,255,900
Small holdings and farms	23,167,750	23,312,750
Vacant plots	44,314,669	42,309,669
	480,480,918	356,821,218

Valuations on land and buildings are performed every four (4) years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.06 (2015: 0.06) is applied to property valuations to determine assessment rates. Rebates of 30% (2015: 30%) are granted to state property owners.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
24. Government grants and subsidies		
Operating grants		
Equitable share	120,534,000	92,151,467
Extended public works programme	1,149,001	1,119,000
Municipal systems improvement grant	803,248	989,264
Finance management grant	1,380,128	1,849,894
LG SETA	1,027,920	1,332,695
Municipal support programme	-	5,235,187
Local economic development	-	3,649,987
Provincial -DSRAC	100,000	210,000
	<u>124,994,297</u>	<u>106,537,494</u>
Capital grants		
Municipal infrastructure grant	24,278,000	36,998,001
	<u>24,278,000</u>	<u>36,998,001</u>
	<u>149,272,297</u>	<u>143,535,495</u>
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents receive a monthly subsidy of 50 kWh which is funded from the equitable share grant.		
Refuse removal services for a tariff of R96.67 are offered for free to the indigent community of Mtumbane village.		
Grants		
Balance unspent at beginning of year	-	14,169,030
Current-year receipts	29,284,920	44,699,360
Conditions met - transferred to revenue	(28,738,297)	(58,868,390)
	<u>546,623</u>	<u>-</u>
Municipal infrastructure grant		
Balance unspent at beginning of year	-	7,541,468
Current-year receipts	24,278,000	36,998,000
Conditions met - transferred to revenue	(24,278,000)	(36,998,000)
Transfers out	-	(7,541,468)
	<u>-</u>	<u>-</u>
To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.		
Finance management grant		
Balance unspent at beginning of year	-	49,894
Current-year receipts	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,380,128)	(1,849,894)
	<u>419,872</u>	<u>-</u>
To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.		
Municipal systems improvement grant		
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	<u>(803,248)</u>	<u>(934,000)</u>

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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24. Government grants and subsidies (continued)

126,752	-
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To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act.

Expanded public works programme

Current-year receipts	1,149,000	1,119,000
Conditions met - transferred to revenue	(1,149,000)	(1,119,000)
	<u>-</u>	<u>-</u>

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas..

Municipal support programme

Balance unspent at beginning of year	-	3,735,187
Current-year receipts	-	1,500,000
Conditions met - transferred to revenue	-	(5,235,187)
	<u>-</u>	<u>-</u>

The specific objective of the MSP is to improve the capacities for good governance and municipal management at the local level, to improve local services to citizens and to enhance local economic development by strengthening local organisations, the standing conference of town and municipalities - central government cooperation.

LG SETA

Balance unspent at beginning of year	1	384,336
Current-year receipts	1,027,920	948,360
Conditions met - transferred to revenue	(1,027,920)	(1,332,695)
	<u>1</u>	<u>1</u>

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan(SSP) and the priorities set out in the national skills development strategy (NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

Local economic development

Balance unspent at beginning of year	-	2,349,987
Current-year receipts	1,027,920	1,300,000
Conditions met - transferred to revenue	(1,027,920)	(3,649,987)
	<u>-</u>	<u>-</u>

Beautify open spaces, enhance and uplift the PSJ town. Provision of waste management infrastructure. Provision of road traffic signage and signage targeting beach front. Strengthening of shift work cleaning programme and targeted cleaning in hot spot areas.

Department of sports, recreation, arts and culture

Balance unspent at beginning of year	-	110,000
Current-year receipts	100,000	100,000
Conditions met - transferred to revenue	(100,000)	(210,000)
	<u>-</u>	<u>-</u>

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
24. Government grants and subsidies (continued)		
The purpose of the grant is to maintain existing library facilities , assist in supervising and adminstration of staff in public libraries, establish library structures , support libray awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts		
25. Employee related costs		
Basic	35,911,777	33,715,802
Bonus	43,280	(293,687)
Medical aid - company contributions	3,828,391	3,048,036
UIF	536,860	481,619
Leave pay provision charge	111,235	(32,530)
Defined contribution plans	5,591,779	4,315,997
Long-service awards	320,000	298,000
Benefits paid	-	(85,821)
Payroll accrued expenses	-	1,464,907
Acturial gains	(361,644)	(208,179)
Allowances	1,191	-
	45,982,869	42,704,144
Remuneration of Municipal Manager N Pakade -(Appointed 1 April 2016)		
Annual Remuneration	230,833	-
Car Allowance	53,750	-
Contributions to UIF, Medical and Pension Funds	39,613	-
Housing, subsistance and travel allowance	34,349	-
	358,545	-
Remuneration of the Chief Financial Officer - Mrs P Gwana (Appointed 1 July 2015)		
Annual Remuneration	823,533	-
Car Allowance	183,235	-
Subsistance and travel allowances	77,112	-
Contributions to UIF, Medical and Pension Funds	1,784	-
	1,085,664	-
Remuneration of Corporate Services Manager - Mr F Guleni (Appointed 1 Sept 2012)		
Annual Remuneration	905,531	606,000
Car Allowance	208,589	180,000
Other allowances	218,817	228,988
Subsistance and travel allowances	2,209	2,203
	1,335,146	1,017,191
Remuneration of Community Services Manager - Mr T Mvukuzo (Appointed 1 Sept 2012)		
Annual Remuneration	1,045,285	726,600
Car Allowance	199,522	172,176
Other allowances	125,640	113,836
Contributions to UIF, Medical and Pension Funds	-	11,486
Contributions to UIF, KGA, LIFEand SALGABC	2,209	2,203
	1,372,656	1,026,301

Port St Johns Municipality

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Figures in Rand	2016	2015
25. Employee related costs (continued)		
Remuneration of Engineering Manager - Mr B Tshitshi (1 Sept 2012)		
Annual Remuneration	1,114,950	696,769
Car Allowance	147,573	140,000
Travel and subsistence allowance	61,096	156,832
Contributions to UIF, Medical and Pension Funds	2,209	-
Acting allowances	19,070	2,203
	1,344,898	995,804
Remuneration of LED Manager - Ms Z Masumpa (1 July 2013)		
Annual Remuneration	1,045,558	726,600
Car Allowance	199,249	172,176
Other allowances	-	134,828
Contributions to UIF, KGAlife and SALGABC	2,209	2,203
	1,247,016	1,035,807
Remuneration of previous Municipal Manager - Mr N Jakuja (left 28 February 2015)		
Annual Remuneration	1,201,200	542,857
Car Allowance	-	181,676
Contributions to UIF, SALGA	-	1,189
	1,201,200	725,722
The remuneration of staff is within the upper limit of the SALGA Bargaining Council determinations.		
Remuneration of Acting Municipal Manager - M Sondaba (Appointed 01 Nov 2015)		
Annual Remuneration	-	119,009
Other allowances	-	46,295
Contribution UIF	-	1,126
	-	166,431

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
26. Remuneration of councillors		
Councillors	<u>11,084,771</u>	<u>9,788,921</u>

In-kind benefits

Mayor, Speaker, Chief Whip and executive committee members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Port St Johns Municipality

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Figures in Rand

2016

2015

26. Remuneration of councillors (continued)

2016	Annual remuneration	Backpay	Car Allowance	Cellphone Allowance	Total
Mfiki NM	155,156	7,063	51,719	13,788	227,726
Nokhanda B	387,104	16,188	133,071	13,788	550,151
Langa P	516,139	21,584	172,042	-	709,765
Khukula T	412,910	17,267	137,635	-	567,812
Cube ZH	155,156	7,064	51,719	13,788	227,727
Lobi SJ	170,310	112,733	56,771	13,788	353,602
Zweni RM	155,156	7,064	51,719	13,788	227,727
Z Maqina	155,156	7,064	51,719	13,788	227,727
Sotshongaye ST	155,156	7,064	51,719	13,788	227,727
Madini D	155,156	7,064	51,719	13,788	227,727
Mhlabeni Z	155,156	7,064	51,719	13,788	227,727
Fono KM	170,310	148,169	56,771	13,788	389,038
Sophotela	155,156	7,064	51,719	13,788	227,727
Mzaza S	213,338	9,713	71,115	13,788	307,954
Mtuku NB	170,310	117,498	56,771	13,788	358,367
Mncwati EZ	155,156	7,064	51,719	13,788	227,727
Tani N	155,156	7,064	51,719	13,788	227,727
Mncekisa VN	155,156	7,064	51,719	13,788	227,727
Mabovana MS	155,156	7,064	51,719	13,788	227,727
Nduku C	213,338	9,713	71,115	13,788	307,954
Veni M	155,156	7,064	51,719	13,788	227,727
Moni X	175,213	26,126	58,405	13,788	273,532
Fono C	155,156	7,064	51,719	13,788	227,727
Diko NF	155,156	7,064	51,719	13,788	227,727
Bokwe NF	155,156	7,064	51,719	13,788	227,727
Tsili M	213,338	9,713	71,115	13,788	307,954
Madolo S	155,156	7,064	51,719	13,788	227,727
G Tshotho	155,156	7,064	51,719	13,788	227,727
Rolobile L	213,338	9,713	71,115	13,788	307,954
Ndamase L	213,338	9,713	71,115	13,788	307,954
Mbotswa N	155,156	7,064	51,719	13,788	227,727
Kotana MPJ	213,838	9,713	71,115	13,788	308,454
Mtiki Z	155,156	7,064	51,719	13,788	227,727
Ndakayi N	213,338	9,713	71,115	13,788	307,954
Nompaka	155,156	7,064	51,719	13,788	227,727
Tshitshiliza N	155,156	7,064	51,719	13,788	227,727
Nomagedeshe B	170,310	55,538	56,778	13,788	296,414
Hobo M	155,156	7,064	51,719	13,788	227,727
Tayi HS	155,154	49,895	22,285	5,745	233,079
	7,390,214	795,460	2,437,871	502,113	11,125,658

2015	Annual remuneration	Backpay	Car Allowance	Cellphone allowance	Total
Mfiki P	54,129	2,312	18,044	4,596	79,081
Nokhanda B	233,393	13,497	77,800	13,788	338,478
Bokwe F	144,231	9,520	48,078	13,788	215,617
Khukula T	384,619	25,387	128,204	-	538,210
Cube H	144,231	9,520	48,078	13,788	215,617
Diko F	144,231	9,520	48,078	13,788	215,617
Fono M	144,231	9,520	48,078	13,788	215,617
Langa P	375,554	23,007	128,849	10,341	537,751
Mangqo D	326,835	-	108,925	-	435,760
Fono C	144,231	9,520	48,078	13,788	215,617
Kotana MPJ	148,962	10,722	49,655	13,788	223,127
Lobi J	144,231	9,520	48,078	13,788	215,617

Port St Johns Municipality

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Figures in Rand				2016	2015
26. Remuneration of councillors (continued)					
Mabovana MS	144,231	9,520	48,078	13,788	215,617
Madini D	144,231	9,520	48,078	13,788	215,617
Madolo S	144,231	9,520	48,078	13,788	215,617
Maqina Z	144,231	9,520	48,078	13,788	215,617
Mbotshwa N	144,231	9,520	48,078	13,788	215,617
Mcekisa VN	144,231	11,208	48,078	13,788	217,305
Mhlabeni Z	144,231	9,520	48,078	13,788	215,617
Mncwati Z	144,231	9,520	48,078	13,788	215,617
Moni X	144,231	9,520	48,078	13,788	215,617
Mtiki Z	144,231	9,520	48,078	13,788	215,617
Mtuku B	144,231	9,520	48,078	13,788	215,617
Mzaza S	198,315	12,190	66,109	13,788	290,402
Ndakayi N	198,315	13,090	66,109	13,788	291,302
Zweni M	144,231	9,520	48,078	13,788	215,617
Ndamase L	198,315	13,090	66,109	13,788	291,302
Nompaka T	144,231	9,520	48,078	13,788	215,617
Nduku C	198,315	13,090	66,109	13,788	291,302
Nomagedesh B	144,231	9,520	48,078	13,788	215,617
Rolobile L	228,239	13,090	66,109	13,788	321,226
Sophotela MN	144,231	9,520	48,078	13,788	215,617
Sotshongaye ST	144,231	9,520	48,078	13,788	215,617
Tani N	144,231	9,520	48,078	13,788	215,617
Tobela GF	32,725	-	10,909	2,298	45,932
Tshitshiliza N	144,231	9,520	48,078	13,788	215,617
Tshotho G	144,231	9,520	48,078	13,788	215,617
Tsili M	198,315	13,090	66,109	13,788	291,302
Veni M	144,231	9,520	48,078	13,788	215,617
M Hobo	120,431	7,616	40,145	11,490	179,682
HS Tayi	22,225	-	3,204	875	26,304
	6,668,693	409,389	2,212,417	498,392	9,788,891
27. Debt impairment					
Debt impairment				1,920,263	3,848,026
28. Depreciation					
Property, plant and equipment				27,567,574	30,112,231
29. Finance cost					
Current borrowings				(1,862)	84,011
Capitalised				-	36,200
Other interest paid				770,583	2,304,776
				768,721	2,424,987

Finance cost charges relate to interest charges on leased equipment. The municipality leases equipment from Laman Finance for which interest charge of R6 246 479 was incurred. In addition interest charges of R24 459 were incurred for the Cellphone equipment from Vodacom. The interest rate for Laman finance ranges from 8% to 84% per annum while Vodacom interest ranges between 8.5% and 10.5% per annum.

Port St Johns Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
30. Contracted services		
Legal fees	1,661,860	714,015
Security costs	1,412,387	1,631,929
Consultancy and professional fees	10,950,106	2,079,575
	14,024,353	4,425,519
31. Grants and subsidies paid		
Other subsidies		
LED Programmes- (PSJDA)	6,043,566	5,033,220
32. General expenses		
Accounting fees	57,112	-
Advertising	178,199	339,968
Auditors remuneration	2,684,176	3,724,663
Bank charges	94,618	102,662
Commission paid	139,970	127,584
Consumables	107,582	296,964
Entertainment	243,502	190,874
Insurance	981,458	1,091,671
Promotions and sponsorships	-	43,390
Books and publications	83,456	61,291
Motor vehicle expenses	747,735	181,729
Fuel and oil	691,218	1,367,869
Postage and courier	311	-
Printing and stationery	814,582	752,465
License fees	178,209	194,428
Software expenses	-	108,184
Subscriptions and membership fees	805,707	9,112
Telephone and fax	2,727,188	1,881,038
Training	754,372	630,653
Travel - local	4,906,976	5,886,093
Refuse bags	6,386	-
Assets expensed	-	1,347,138
Electricity	2,439,152	2,262,611
Uniforms	391,694	544,429
Penalty Charges	-	209,795
Project expenses	231,788	5,506,658
Soial responsibility programmes	2,206,892	2,034,644
SDL	522,140	482,731
Consumables and beverages	28,137	26,780
Convention bureau	-	6,500
Other expenses	6,439,345	8,527,435
	28,461,905	37,939,359
33. Auditors' remuneration		
Fees	2,684,176	3,724,663

Port St Johns Municipality

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Figures in Rand	2016	2015
34. Net cash flows from operating activities		
Surplus	23,864,018	13,835,697
Adjustments for:		
Depreciation and amortisation	27,567,574	30,112,231
Gain on sale of assets and liabilities	17,155	263,526
Debt impairment	1,920,263	3,848,026
Changes in working capital:		
VAT refund	20,350,148	667,233
Other non cash items	(16,941,535)	(9,269,061)
	56,777,623	39,457,652
35. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	52,781,071	49,583,444
Total capital commitments		
Already contracted for but not provided for	52,781,071	49,583,444
Total commitments		
Total commitments		
Authorised capital expenditure	52,781,071	49,583,444
This committed expenditure relates to access roads and will be financed by mainly the Municipal Infrastructure Grant.		
Operating leases liability		
Minimum lease payments due		
- within one year	148,434	136,145
- in second to fifth year inclusive	968,283	678,806
- later than five years	5,708,950	6,451,893
	6,825,667	7,266,844

Operating lease payments represent rentals payable by the municipality for certain of equipment and internet services. The Municipality entered into an agreement with Transnet for long term lease of land over a period of 30 years. No contingent rent is payable.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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Figures in Rand	2016	2015
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36. Contingencies

Asset

PSJM and M.T Mfecane is the defendant. This is an interdict against Mr. Mfecane to stop building on the property of the Municipality. The estimated cost to municipality is around R150 000. The matter is set for hearing on the 20th of October and in good merit.

PSJM and OceanView - The municipality instituted action against Mr Mugwanya for arrear rates in sum of R170 000. Waiting the dies for the entering an appearance to defend to lapse in order to take further steps and in good merit.

PSJM and Coastal properties the municipality instituted action against Coastal properties Pty Ltd in the sum of R255 000. Default judgment obtained and has proceeded with a warrant of execution. Waiting for trial date and is in good merit.

Port St Johns Taxi Association/PSJ

The municipality instituted action against Port St Johns Taxi Owners Primary Co- operative Ltd for arrear rates. Waiting for a court appearance to defend the lapse in order to take further steps. Estimate R50 000.

Liability

Nozipho F Bokwe vs PSJM and 3 others - A civil action brought by the opposition to nullify the resolution of the council to reinstate the employees that have been dismissed. Estimated cost of finalisation is about R200 000. Postponed without giving date and possible settlement.

Zamani Civils vs PSJM Civil claim allegedly suffered as a result of the municipality terminating the contract for the upgrading of CBD and estimated cost is R11 000 000. Waiting for trial date. Timing dependant on trial date.

Bodlani vs PSJM Civil claim for the alleged assault of Mr Bodlani at the second Beach and estimated cost is R650 000. Waiting for a trial date, the merit favour the municipality.

Ncedile Jakuja vs PSJ Municipality. Case handled in Mthatha High Court . Estimated cost R30 000. It is not likely that the matter will be pursued to the finality by the look of things.

Vapi and others/PSJ Municipality. The matter was postponed sine die (without assigning a day for another meeting) and the court order that the interviews can continue however provided certain conditions are met and is likely to be before end of year. Estimated cost R300 000. Waiting for a date for another meeting and is moderate.

Kwane vs PSJ. The municipality received a bill of cost from Mtsabe Attorneys for Mr Jakuja cost which was set down for taxation on the 11th of March 2016 which was postponed due attorney requesting certain information as the municipality believe they can not proof his cost. Estimated cost R300 000. The trial was postponed and the case is moderate.

Vapi and other vs PSJ. Interdict stopping the municipality from recruitment for rural development manager. Return date 21 set May 2015. Waiting for a date and the case is moderate.

Zayadwa Ndabeni and others vs PSJ Municipality. Malicious proceeding. Estimated cost R300 000

Nogumla vs PSJ Municipality . The municipality received summons wherein plaintiff claimed damages for where the individuals were attacked by sharks. Estimate R400 000

Mfecane vs PSJ Municipality . Civil claim for alleged damage of Mr Mfecane's property by the municipality traffic officer and total estimate amounts to R159 000. Waiting for a trial date. In terms of investigations and witness statements the merit favour the municipality.

Ngomla vs PSJ municipality . We received summons wherein the plaintiff claimed damages for where the individuals were attacked by sharks. No date and in good prospects. Estimated cost R400 000.

Port St Johns Municipality

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Figures in Rand	2016	2015
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37. Related parties

Relationships		
Accounting Officer : Mr Pakade	Refer to employee related costs	
Chief Finance Officer	Refer to employee related costs	
Corporate services manager	Refer to employee related costs	
Community services manager	Refer to employee related costs	
Engineering manager	Refer to employee related costs	
Local Economic Development Manager	Refer to employee related costs	
Councillors	Refer to remuneration of councillors	

Related party transactions

Grant paid to (received from) related parties

PSL Development Agency	6,043,566	5,033,220
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Advance on purchase of land

OR Tambo	8,741,165	8,741,165
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Port St John's Development Agency (section 21 company registration no. 1999/009129/08. The Municipality has advanced the Agency with an amount of R6 043 566 (2015:R5 033 220) for its operation and the amount is exclusive of VAT.

38. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets and liabilities exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	1,519,087	1,194,531
Receivables from non exchange transactions	3,478,859	1,761,903
Cash and cash equivalent	36,857,627	9,008,119
Payables from exchange transactions	29,463,090	28,256,091
Finance lease obligation	10,533,505	11,626,991

Market risk

Port St Johns Municipality

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38. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to source funding for the ongoing operations for the municipality.

40. Events after the reporting date

There are no material adjusting and non-adjusting events after the reporting date:

41. Unauthorised expenditure

Opening balance	54,451,242	32,455,887
Unauthorised expenditure incurred	-	21,995,355
	54,451,242	54,451,242

Unauthorised expenditure is due to the expenditure incurred above authorised budget.

42. Fruitless and wasteful expenditure

Opening Balance	14,106,083	12,375,334
PAYE,SDL, and UIF penalties and interest	366,355	1,730,749
Interest Eskom	4,151	-
Interest on Telkom	12,512	-
Interest on Auditor General	27,391	-
Laman Interest	2,429,038	-
VAT Penalties and interest	382,174	-
	17,327,704	14,106,083

43. Irregular expenditure

Opening balance	63,550,600	33,054,321
Add: Irregular Expenditure - current year	18,206,406	30,496,279
Councillors remuneration not paid in accordance with the government gazette	44,905	-
	81,801,911	63,550,600

Analysis of expenditure

Irregular expenditure relates to expenditure incurred contrary to supply chain management policy and regulations. There are currently no cases under investigation.

Port St Johns Municipality

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44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,231,180	990,013
Current year subscription / fee	678,377	776,645
Amount paid - current year	(1,329,451)	(535,478)
	580,106	1,231,180

Audit fees

Opening balance	2,806,275	1,969,630
Current year subscription / fee	4,301,290	4,695,057
Amount paid - current year	(4,353,375)	(3,858,412)
	2,754,190	2,806,275

PAYE , UIF and SDL

Opening balance	239,738	639,045
Current year subscription / fee	9,065,486	7,761,158
Amount paid - current year	(9,386,660)	(8,160,465)
	(81,436)	239,738

Pension and medical aid deductions

Opening balance	157,554	-
Current year subscription / fee	10,377,417	8,375,030
Amount paid - current year	(10,496,788)	(8,217,476)
	38,183	157,554

VAT

VAT receivable	5,399,065	19,625,583
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VAT output payables and VAT input receivables are shown in note .

Councillors' arrear consumer accounts

All councillors reside in the rural areas of Port St John's Municipality, therefore,they are not billed for any services.

Port St Johns Municipality

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44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have not been condoned.

Sole Provider

Shesha- The books are supplied by Shesha which is the bookshop made available by Mancosa	18,720	-
Shesha- The books are supplied by Shesha books which is the bookshop made available by Mancosa	5,363	-
Post Office- is the only supplier for postage stamps	3,600	-

Emergency

Ntaba River Logde - othe places were fully booked	2,600	-
Karibu Guest house- Office of the speaker was informed late about a meeting and SCM offices were closed.	2,800	-

Exceptional Case	-	-
Karibu Guest house- Other places were fully booked	2,500	-
Karibu Guest House- Other places were fully booked	5,080	-
Wild Cost Sun- The Mayor was booked to wild coast sun by OR Tambo Municipality to attend startegic planning sessio, it was convinient to book his body guard and driver at the same place.	11,670	-
Blue Chip Security Services - advertised the tender of training for six security personnel twice upon the opening of bids there was no response then SCM unit requested the Municipal Manager to request the quotation.	28,000	-
Mosuli Guest House- Other Places were fully booked	11,480	-
Mpekweni Beach Resort- Other places were fully booked	2,470	-
Ultra Community Radio- Only radio station which can provide the municipality with time slot for tradional event.	4,050	-
Ntaba River- Other places were fully booked	2,600	-
Top House BnB- Other places were fully booked	3,580	-
Queens- Other places were fully booked	2,900	-
Sleep and dream- Other places were fully booked	6,120	-
Riverside lodge- Other places were fully booked	2,130	-
Hotel Savoy- Other places were fully booked	5,045	-
Dans Country Lodge- other places were fully booked	23,040	-
Seida Towing- Towing of a municipal vehicle	3,500	-
Ikwezi Computer- purchasing of repair part from Ikwezi because other suppliers will not fit	27,355	-
NPM Goemetric- Only one local land savouy responded to the request correct quote	5,130	-
Ntaba River lodge- Other places were fully booked	8,000	-
Selele Travel- Other places were fully booked	5,390	-
Ntaba River- Other places were fully booked	2,832	-
Ntaba River - Other places were fully booked	3,280	-
	199,235	-

45. Prior period errors

The prior year has been amended to account for prior period errors

Below is a summary of the total effect the prior period errors, changes in accounting policies and reclassifications of the comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amount involved.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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45. Prior period errors (continued)

Statement of financial performance for the year ended 2016

Revenue	Balance as previously reported	Prior period error	Reclassified	Restated balance
Service charges	726,277	-	-	726,277
Rental income	58,056	-	-	58,056
Interest received - trading	2,550,539	-	-	2,550,539
Interest received - investment	808,187	-	-	808,187
Other Income	257,003	26,453	9,000	292,456
Property rates	3,962,250	-	-	3,962,250
Government grants and subsidies	113,734,312	29,801,183	-	143,535,495
Public contributions and donations	-	723,495	1,000	724,495
Revenue from non exchange transactions	-	-	-	-
Fines, penalties and forfeits	285,650	-	-	285,650
Licences and permit	24,267	-	-	24,267
Total revenue	122,406,541	30,551,131	10,000	152,967,672
Expenditure				
Employee related costs	49,687,869	(2,579,923)	(4,403,801)	42,704,145
Remuneration of councillors	10,000,065	(322,620)	111,477	9,788,922
Debt impairment	3,060,086	787,941	-	3,848,027
Depreciation and amortisation	29,789,383	322,848	-	30,112,231
Finance costs	10,476,402	(8,051,415)	-	2,424,987
Repairs and maintenance	2,676,943	(457,215)	65,728	2,285,456
Contracted services	1,709,749	(467,673)	3,183,443	4,425,519
Grants and subsidies paid	5,033,220	-	-	5,033,220
General expenses	25,878,616	4,016,861	8,043,882	37,939,359
Operating lease rentals	2,116,223	(1,465,790)	(343,848)	306,585
Loss on disposal of assets	-	263,527	-	263,527
Total expenditure	140,428,556	(7,953,459)	6,656,881	139,131,978
 Operating surplus / (deficit)	 (18,022,015)	 38,504,589	 (6,646,881)	 13,835,693
Surplus / (deficit) for the year	(18,022,015)	38,504,589	(6,646,881)	13,835,693

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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45. Prior period errors (continued)

Statement of Financial Position as at 30 June 2016

	Balance as previously reported	Prior period error	Reclassified	Restated balance
Assets				
Current Assets				
Cash and cash equivalents	9,015,613	(7,494)	-	9,008,119
Receivables from exchange transactions	1,544,820	(881,674)	-	663,146
Receivables from non-exchange transactions	1,716,068	45,835	-	1,761,903
VAT receivable	28,116,815	(1,844,351)	(6,646,881)	19,625,583
Other debtors	-	531,385	-	531,385
Inventories	520,855	-	-	520,855
Total current assets	40,914,171	(2,156,299)	(6,646,881)	32,110,991
Non-current Assets				
Investment property	11,461,003	-	-	11,461,003
Property, plant and equipment	342,602,266	14,093,609	-	356,695,875
Total non-current assets	354,063,269	14,093,609	-	368,156,878
Liabilities				
Current Liabilities				
Payables from exchange transactions	20,976,089	3,659,921	(54,999)	24,581,011
Finance lease obligation	11,526,747	-	-	11,526,747
Unspent conditional grants and receipts	29,807,182	(29,801,181)	(6,001)	-
Employee benefit obligation	509,000	-	-	509,000
Consumer deposit	-	-	61,000	61,000
Bank Overdraft	45,125	-	-	45,125
Total current liabilities	62,864,143	(26,141,260)	-	36,722,883
Non-current Liabilities				
Provisions	4,801,824	-	-	4,801,824
Employee benefit obligation	1,472,000	-	-	1,472,000
Finance lease obligation	100,244	-	-	100,244
Operating lease liability	1,597,514	-	-	1,597,514
Total non-current liabilities	7,971,582	-	-	7,971,582
Net Assets				
Accumulated surplus - Opening balance	342,163,730	429,019	-	342,592,749
Total net assets	342,163,730	429,019	-	342,592,749
Accumulated surplus				
Other Income - Donations on assets and commissions recognised			-	(26,453)
Government Grants and subsidies- MIG, FMG, MSIG, EPWP, MISP grant recognised			-	(29,801,183)
Employee related costs- clearing misallocations in payroll costs			-	(2,579,923)

Port St Johns Municipality

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45. Prior period errors (continued)

Public Contributions and donations- Donations on assets not recognised	-	(723,495)
Remuneration of councillors- clearing misallocations in payroll costs	-	(322,620)
Debt Impairment- Recalculated debt impairment	-	787,941
Finance cost	-	(8,051,415)
Depreciation recalculated	-	322,848
Repairs and maintenance- reclassification of assets	-	(457,215)
Contracted services	-	(467,673)
General expenses- Recognising expenses not accrued for	-	4,016,861
Operating lease rentals	-	(1,465,790)
Profit or loss on sale of assets	-	263,527
SARS assessments during the year not recovered	-	6,646,881
	-	(31,857,709)

Other income

Assets life guard equipment amounting to **R723 495** were donated to the municipality in the 2014/15 financial period. These assets were omitted from the books resulting in an overall understatement of assets and donations by the said amount.

The municipality acts as a collection agent for legal wise, Sanlam Sky as well as Old Mutual. In return it gets commission. This commission was incorrectly classified under employee costs. This error of classification understated employee costs, remuneration of councillors as well as commission by an overall amount of **R33 757**

A claim paid to a deceased employee beneficiary amounting to **R 7 340** was erroneously included under claims received resulting in overstatement of claims received and employee related costs.

Subsistence allowance amounting to **R10 000** was incorrectly classified under other income. This understated general expenses and other income by **R10 000**

Government grants and subsidies

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the grant income amount and overstatement of unspent grant amount by **R29 801 183**

Employee related cost

General expenses amounting to **R4 403 801** were incorrectly classified under employee related costs. This resulted in the overstatement of the employee costs with **R4 403 801** and understatement of the general expenses with the same amount.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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45. Prior period errors (continued)

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee cost instead of correctly under remuneration of councillors. This resulted in overstatement of employee cost and understatement of remuneration of councillors.

Bonus provision was understated by **R7 917** whilst leave provision was understated by **R4 302**. These misstatements were as a result of incorrectly calculating respective provisions.

Medical aid expenses, Pension contributions, UIF were inaccurately provided for resulting in an overall overstatement of **R300 717** under employee related costs.

Salaries were overstated by **R460 121** due to misallocation between remuneration of councillors as well as employee costs, commission received misallocations and misallocations in claims received.

In addition employee cost erroneously included travelling and subsistence expenses operating costs that should have been capitalised. The misstatement amounted to **R1 794 473**.

Remuneration of councillors

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee costs instead of correctly under remuneration of councillors. This resulted in overstatement of the employee cost and understatement of remuneration of councillors.

Salaries were overstated by **R178 196** due to misallocations between remuneration of councillors as well as employee costs, telephone cost and commission received.

In addition remuneration of councillors was overstated by **R500 816.51** which related to travelling and subsistence. This resulted in misstatements in both accounts by the same amount.

Finance costs

In addition, finance costs amounting to **R8 051 415** were incorrectly expensed instead of capitalising under projects constructed internally. This resulted in mistatement on both balances

Debt Impairment

Debt impairment was incorrectly calculated resulting in understatement of debt impairment expense by **R787 941** i.e rates overstated by **R93 733** whilst refuse understated by **R881 674**

Depreciation

Depreciation expense was incorrectly calculated resulting in an understatement of depreciation expense and the related accumulated depreciation. The error amounted to **R1 021 983**.

In addition an adjustment of **R699 135** has been done to take into account capitalisation of internal projects as well as depreciation incorrectly calculated

Repairs and maintenance

Port St Johns Municipality

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45. Prior period errors (continued)

Some expenditure line items were classified incorrectly under operating lease rentals. These amounts included office and traffic equipment . This was reclassified to other repairs and maintenance **R65 728**.

Assets amounting to **R53 066** were incorrectly allocated under repairs and maintenance account resulting in overstatement of the latter account and understatement of assets.

Repairs amounting to **R350 008** were incompletely recorded resulting in understatement of the repairs expenses and accruals.

Expenses amounting to **R480 590** were erroneously recorded under repairs and maintenance resulting in an overstatement of the latter account as well as accruals.

Repairs amounting to **R21 348** were recording twice resulting in overstatement of the repairs expenses and accruals.

Contracted services

Some contracted services line items were incorrectly classified as general expenses. These amounts related to consultants and professional fees and legal fees. These items were reclassified to contracted services **R3 183 443**

Contracted services amounting to **R56 948** were incompletely recorded resulting in understatement of the latter expenses and accruals

Expenses amounting to **R245 899** were erroneously recorded under contracted services resulting in an overstatement of the latter account as well as accruals.

Expenses amounting to **R770 520** were recorded twice under contracted services resulting in an overstatement of the latter account as well as accruals.

General Expenses

Port St Johns Municipality

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45. Prior period errors (continued)

Some expenditure line items were classified incorrectly under general expenditure. These amounts include legal fees, consultants and professional fees. This was reclassified to contracted services. **(R3 183 443)**

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in overstatement of the VAT receivable and understatement of general expenses with the same amount

General expenses amounting to **R4 292 324** were incorrectly classified under employee related cost and remuneration of councillors. This resulted in the overstatement of the employee cost with **R4 403 801** and understatement of remuneration of councillors with **R111 477**.

General expenses amounting to **R278 119** were incorrectly classified under operating lease rentals. This resulted in the overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses by the same amount

General expenses amounting to **R10 000** were incorrectly classified under other income. This resulted in understatement of other income with **R10 000** and understatement of general expenses with the same amount.

Up and above the misclassifications above the following additional mistatements are summarised below.

Description	Mistatement
Duplicated expenses	- 498 728
Expenses incorrectly accounted for	-1 278 943
Expenses omitted	4 518 986
Payroll expenses misallocated under general expenses	- 38 909
VAT Incorrectly accounted for	<u>22 050</u>
Total	2 724 455

In addition travelling and subsistence were incorrectly recorded under employee costs, whilst some expenses related to projects were not capitalised. This resulted in a mistatement of **R1 292 406** of general expenditure.

Operating lease rentals

General expenses amounting to **R278 119** were incorrectly classified under operating lease rentals. This resulted in overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses with the same amount.

An expense was duplicated when recording resulting in overstatement of operating lease rentals and accruals by an amount of **R 1 285 781**.

Expenses amounting to **R180 009** were recorded twice under operating lease rentals resulting in an overstatement of the latter account as well as accruals.

Profit or loss on sale of asset

No profit or loss was calculated on the assets that were disposed in the 2014/15 financial year. This resulted in overall misstatements in loss on disposal, assets and accumulated surplus of **R263 527**

Statement of Financial Position

Cash and cash equivalents

Petty cash expenses incurred in the 2014/15 financial year were omitted erroneously in the 2015 financial year and consequently the petty cash balance and related expenses were understed by **R7 494**.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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45. Prior period errors (continued)

Receivables from exchange transactions

Refuse debtors debt impairment amounts reported as at the 30th of June 2015 were incorrectly calculated. This resulted in the understatement of the debt expense by **R881 674** and overstatement of refuse receivables by the same amount.

Receivables from non exchange transactions

Rates debtors debt impairment amounts reported as at 30th of June 2015 were incorrectly calculated. This resulted in the overstatement of debt impairment expense by **R93 733** and overstatement of rates of receivables by the same amount.

Rates debtors balance were erroneously debited with a VAT related transaction. This overstated the debtors balance with **R47 897**

VAT Receivable

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in overstatement of the VAT receivable and understatement of general expenses with the same amount.

For all expenses incurred but initially not accrued for, VAT input was also accounted for in recognition of the expenses and respective accruals. The VAT input adjustment amounted to **R10 292 246**

In addition there was an overall mistatement of Creditors VAT Provisional by an amount of **R12 136 597**. This amount was also mistating the overall accumulated surplus by the same amount.

Other Debtors

Proceeds from assets disposed in the 2014/15 financial year were not yet received as at the end of that financial period. The amount receivable was **R531 385**. Omission of the receivable also resulted in incorrectly accounting for loss on disposal.

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

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45. Prior period errors (continued)

Payables from exchange transactions

Unallocated deposits amounting to **R6 000** were erroneously classified under unspent conditional grants instead of under payables from exchange transaction. This resulted in overstatement of the former balance whilst the latter balance was understated.

Consumer deposits amounting to **R61 000** were erroneously classified under payables from exchange transactions instead of consumer deposits. This resulted in overstatement of the former balance whilst the latter was understated.

Accruals

In the 2014/15 financial year there were various misstatements to the accruals as summarised below.

Description	Misstatement
Accruals incorrectly accounted for	1 197 186.41
Accruals not raised completely	-540 425.03
Duplicated accruals	547 792.63
Invalid accruals incorrectly raised	-743 413.86
Payroll related expenses	<u>639 295.27</u>
	1 100 435.42

Creditors control

Batches of invoices totalling **R2 879 117** were not accounted for at year end (error of omission). This understated the related expenditure account as well as the creditors control account.

An amount of **R587 304** was erroneously included under creditors. This resulted in a misstatement of creditors and related expenditure with the same amount

Provision for bonus and leave

Bonus provision was understated by **R7 917** whilst leave provision was understated by **R4 304**. These misstatements were as a result of incorrectly calculating the respective provisions.

Retention

Retention cost for a number of projects were completely omitted from the system. The retention amount totalled **R4 897 056**. This omission resulted in understatement of the retention payable as well as the project cost.

In addition retentions were overstated by **R3 665 850** due to incorrectly accounting for retentions on Assets under construction. This resulted in misstatement of Property, plant and equipment by the same amount.

Salary Suspense Account

As at year end there were payroll related transactions that had been underpaid to third parties or in some instances employees. These amounts were not incorrectly accounted for under payroll related cost. The overall misstatement is **R59 731**

Unspent Conditional grants and receipts.

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the Grant income amount and overstatement of unspent grant by **R29 801 183**.

Unallocated deposits amounting to R6 000 were erroneously classified under unspent conditional grant instead of under payables from exchange transactions. This resulted in overestimation of the former balance whilst the latter balance was understated.

Property, plant and Equipment

In the 2014-2015 financial year there were various misstatements to the property, plant and equipment as summarised below:

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors (continued)

Description

Correcting depreciation incorrectly calculated	-	(716,033)
Damaged laptop not written off	-	(5,020)
Internal projects not capitalised	-	6,599,308
WIP register not reconciled to ledger	-	(1,350,737)
Retentions incorrectly accounted for	-	1,257,108
Assets incorrectly recorded under repairs	-	50,615
Gate not accrued for	-	18,150
Plant and equipment incorrectly accounted for	-	818,856
VAT erroneously included in Assets	-	2,160,112
Donated assets not capitalised	-	879,699
Infrastructure WIP incorrectly accounted for	-	3,072,596
Depreciation wrongly calculated	-	1,308,957
	-	14,093,611

46. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Cash and cash equivalents	2,534,392	2,534,392
Call deposits	34,323,474	34,323,474
Receivables	4,997,946	4,997,946
	41,855,812	41,855,812

Financial liabilities

	At amortised cost	Total
Finance lease liability	10,520,779	10,520,779
Trade Payables	6,795,112	6,795,112
Loan	8,741,167	8,741,167
	26,057,058	26,057,058

2015

Financial assets

	At amortised cost	Total
Cash and cash equivalents	7,661	7,661
Short term deposits	9,007,952	9,007,952
Receivables	2,956,434	2,956,434
	11,972,047	11,972,047

Financial liabilities

Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Notes to the Annual Financial Statements

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Financial instruments disclosure (continued)

	At amortised cost	Total
Bank overdraft	45,125	45,125
Trade payables	13,026,039	13,026,039
Loan	8,741,167	8,741,167
Finance lease liability	11,626,991	11,626,991
	33,439,322	33,439,322

47. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year..

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June, 2015 is disclosed in note 45 - Prior period errors.

48. Budget differences

Material differences between budget and actual amounts

- a) Accept as immaterial
- b) Projection was that all grants will be spent 100%
- c) It was a donation from Ikwezi computers, one of our suppliers for fax machine
- d) Accept as immaterial
- e) Projection was made based on property developments of PSJ will result to increase in our revenue
- f) Projection was made with the expectation that traffic department will be fully functional
- g) We have budgeted for final settlement of non returning councillors however bargaining council will make payment
- h) Through debt assessment on our debtors and it was identified as cumulating and projected that there will be more doubtful debt impairment
- i) Due to unavailability of cash, we have cut on other costs of repairs
- j) Due to unavailability of cash we have cut on other costs
- k) Due to claims by Laman to the municipality we have made more provisions for finance costs.
- l) Other contracts were awarded close to year end
- m) PSJDA has submitted a request for adjustment in their budget for payment of SARS
- n) Municipality has plan to increase their rentals of machines since other departments do not have working machines.
- o) Projection was made based on past experience, expecting debtors to pay
- p) An amount of VAT returns was budgeted under government grants
- q) There were vacant posts that had been budgeted but remained vacant.

49. In-kind donations and assistance

Donations

Guard equipment donated	-	723,495
Fax Machine	2,500	-
	2,500	723,495